

VZCZCXRO9844
OO RUEHFK RUEHKSO RUEHNN
DE RUEHKO #1163/01 1410927
ZNY CCCCC ZZH
O 210927Z MAY 09
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3155
INFO RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 9407
RUEHBY/AMEMBASSY CANBERRA IMMEDIATE 3186
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 9814
RUEHUL/AMEMBASSY SEOUL IMMEDIATE 5426
RUEHGP/AMEMBASSY SINGAPORE IMMEDIATE 7393
RUEHFK/AMCONSUL FUKUOKA IMMEDIATE 4137
RUEHNN/AMCONSUL NAHA IMMEDIATE 6471
RUEHOK/AMCONSUL OSAKA KOBE IMMEDIATE 7939
RUEHKSO/AMCONSUL SAPPORO IMMEDIATE 4668
RUEHSH/AMCONSUL SHENYANG IMMEDIATE 0706
RUEHIN/AIT TAIPEI IMMEDIATE 7344
RUEAIIA/CIA WASHDC IMMEDIATE
RUEKJCS/CJCS WASHINGTON DC IMMEDIATE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC IMMEDIATE
RHEFDIA/DIA WASHINGTON DC IMMEDIATE
RHEHAAA/NSC WASHDC IMMEDIATE
RUEKJCS/SECDEF WASHDC IMMEDIATE
RUEATRS/TREASURY DEPT WASHDC IMMEDIATE
RHMFISS/USFJ IMMEDIATE
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 06 TOKYO 001163

SIPDIS

E.O. 12958: DECL: 05/20/2019

TAGS: [PREL](#) [PGOV](#) [OVIP](#) [JA](#)

SUBJECT: TOKYO SCENESETTER FOR DEPUTY SECRETARY STEINBERG

Classified By: CDA James P. Zumwalt, reasons 1.4(b), (d).

11. (C) Begin text of Scenesetter:

Mr. Deputy Secretary,

The U.S.-Japan Alliance remains strong and Japan will continue to be a close friend and partner, but our relationship will be stressed on several fronts over the next year as Japan wrestles with daunting political and economic challenges. Two developments dominate the domestic agenda:

-- First, the political consensus that has sustained over fifty years of LDP one-party dominance is crumbling and the opposition Democratic Party of Japan -- which has ambiguous and potentially problematic security policies -- has a reasonable chance of taking power in the next three months. Regardless of who wins, the next government is unlikely to command enough Diet seats to effectively govern, leading to another year of political gridlock.

-- Second, Japan's GDP dropped by an annualized rate of 15.2 percent in the last quarter, the largest fall in 60 years and more than double the drop in the U.S. GDP. Once commanding 14 percent of the world's GDP, Japan's share has dropped to 8 percent. As the world's second largest economy, second largest source of R&D spending, and significant supporter of international organizations and activities, we need Japan's support now more than ever. But a debt-to-GDP ratio approaching 200 percent and a shrinking population and tax base is fueling tremendous pressure to cut spending drastically in all areas -- defense included.

Japan's leaders will look to you to reaffirm President Obama's and Secretary Clinton's message that Japan is a "cornerstone" of our national security and foreign policy. Worries that we would pass over or ignore Japan and tilt toward the PRC have been largely laid to rest by Secretary Clinton's visit and President Obama's invitation to Prime Minister Aso to be the first foreign leader to visit the White House. Nonetheless, unease remains and the Japanese will look to you for reassurance. There will be intense

interest in the outcome and impact of our policy reviews on North Korea, Burma, Iran, and Afghanistan/Pakistan. President Obama's proposals on eliminating nuclear weapons and assurances we will maintain a nuclear arsenal to guarantee deterrence have drawn wide approval. Tokyo has publicly hailed the President's Prague speech and privately expressed appreciation for our pro-active engagement in crafting the Nuclear Posture Review (NPR).

Prime Minister Aso has made progress in carving out a larger international role for Japan and should be commended for his vision and political courage. Tokyo has played a leadership role in supporting stability in Pakistan and Afghanistan, most recently through hosting the highly successful Pakistan donors conference in April. Japan is expected to dispatch P-3C patrol aircraft, supported by Ground and Air Self-Defense Force (SDF) elements, to Djibouti on May 28 to join two destroyers already in the region conducting anti-piracy operations. The Diet is on track to pass legislation that will broaden the SDF's ability work within coalitions.

On the bilateral security front, the Aso administration has moved aggressively to implement the 2006 Alliance Transformation Roadmap, budgeting over one billion dollars this year for U.S. base realignment and securing Diet ratification for the Guam International Agreement signed by Secretary Clinton in February. Japan is also compiling its National Defense Program Guidelines (NDPG) in tandem with our own QDR effort. Bilateral consultations over these efforts

TOKYO 00001163 002 OF 006

should help Japan focus its limited defense resources on capabilities that will enhance the Alliance's effectiveness. Close and effective coordination in the lead-up to the North Korea Taepodong launch in April has validated the trend towards increased interoperability. Nevertheless, there are still political and business interests pressing the government to invest in expensive and duplicative satellites and offensive weapons.

I have attached a list of issues and background material for your reference. We look forward to seeing you in Tokyo.

James Zumwalt, CDA

12. (C) Begin text of Checklist:

DOMESTIC POLITICS

-- LDP Hanging On; DPJ Changes the Guard: Four months ago public support for Prime Minister Taro Aso was approaching record lows, threatening to trigger moves to unseat him within his own ruling Liberal Democratic Party (LDP). But the emergence of scandal allegations involving opposition Democratic Party of Japan (DPJ) leader Ichiro Ozawa in March has since boosted support for Aso's administration. Early indications are that Ozawa's resignation and his replacement by Yukio Hatoyama may improve the public's view of the DPJ, but Aso has used his advantage over the past three months to demonstrate leadership and make progress on most of his key legislative goals. Aso's domestic focus for the rest of the Diet session will be to demonstrate the impact of his legislative efforts on Japan's ailing economy, an effort that will require him to extend the term into July. The DPJ has never been closer to ending more than half a century of LDP domination, but most members realize this may be their last chance, and they have a history of self-destructing.

-- DPJ Friend or Foe?: Significant ideological differences within the party make it difficult to predict the impact on bilateral relations under a DPJ government. Your meeting with DPJ President Hatoyama will continue the process begun by the Secretary of building stronger ties to the party and

helping to moderate its views. Despite its critical stance on a number of Alliance-related issues, the DPJ will seek positive relations with Washington and will likely steer clear redlines we lay down on core issues. In this context, it will be useful to reiterate Secretary Clinton's message to former DPJ President Obama on our commitment to implement the realignment of U.S. forces.

-- Political Realignment in the Offing?: A general election must be held by this fall. We assess that neither the LDP nor the DPJ will receive sufficient votes to assemble a stable coalition government. Voters are disillusioned after three years of political gridlock, and some may choose the DPJ as a protest. Others will be driven to vote for change by the worsening economy. Over 40 percent of Japan's electorate is undecided. Continuing political gridlock may lead to an eventual realignment of political forces.

ECONOMIC DOWNTURN

-- Priority One - The Economy: PM Aso's top priority is implementing economic and fiscal measures to strengthen the domestic economy during the current global economic downturn in advance of the coming election. On April 10, Aso announced a supplemental budget of \$154 billion dollars in government expenditures, projected by USG estimates to

TOKYO 00001163 003 OF 006

generate 1.9 percent of GDP in new real demand. The package's objective is the return of the economy to a sustainable growth path by fiscal year 2010.

-- Will Stimulus Work?: Aso explicitly described his latest stimulus plan as Japan's response to the G-20 Leaders' call for "concerted fiscal expansion." However, Japan-based economists fear some new spending in the April 10 stimulus package may be poorly targeted. The DPJ agrees with the need for fiscal stimulus but is contesting individual elements of the package, which could delay passage of the bill until late June and the ultimate impact of the stimulus into the fall.

-- Cooperation Critical: Your counterparts will want your visit to demonstrate close coordination in jump-starting the world economy. Japan's current economic contraction is due to the collapse of global demand, not a domestic financial crisis. The medium-term economic outlook is gloomy with rising unemployment, declining business confidence, and weak global demand for Japanese exports. Marking the steepest drop since the end of WWII, the country's real GDP fell 15.2 percent on an annualized basis from the previous quarter for the January-March 2009 period due to falling business investment, private consumption, housing investment, and exports. The crisis has reinforced the need for Japan to shift more decisively toward domestic demand-led growth, but domestic economic and structural reform efforts have stalled under Prime Ministers Aso, Fukuda and Abe.

-- U.S. Actions: Japanese banks and financial institutions had little sub-prime market exposure and corporate and banking balance sheets are generally sound, the practice of holding corporate equities among their assets, combined with a 50 percent decline in domestic share prices over the past year has forced many financial firms to book large losses. Companies such as Toyota and Sony have recorded operating losses, pared employment rolls, and extended factory holidays in an effort to quickly slash inventories and costs. These same companies, however, are aggressively shifting production, and restructuring in an effort to return to profitability, but Japanese corporate leaders readily admit that Japan's economic fortunes are tied to a U.S. economic recovery.

BILATERAL AND SECURITY ISSUES

-- Support for Alliance: Many Japanese are becoming more concerned about the state of our bilateral relationship due to uncertainty about our China policy and lingering disappointment with our decision to delist North Korea as state sponsor of terrorism. But while pacifism remains deeply ingrained in Japan, there is an emerging consensus among the public and opinion makers -- due to the DPRK threat and the PRC's growing power projection capabilities -- that the U.S.-Japan Alliance is vital to Japan's national security. Our bilateral security ties remain strong and were reaffirmed by Secretary Clinton in February when she signed the Guam International Agreement (GIA) on the realignment of U.S. Forces, which commits Japan to complete the relocation of Futenma Marine Corps Air Station on Okinawa and to provide funds for USMC-related facilities on Guam.

-- Defense Spending: We need to continue to encourage Japan to take on a greater role in its own defense. Japan is now compiling its National Defense Program Guidelines (NDPG) and 5-year Mid-Term Defense Plan. These policy reviews offer us a chance to influence the future shape of Japan's defense posture. In addition to encouraging greater defense spending, enhanced information security, and broader legal authority to the Self-Defense Forces, we are encouraging

TOKYO 00001163 004 OF 006

Japan to focus on deepening operational capabilities in ways that will enhance our Alliance's deterrent value, including long-range lift, ballistic missile defense (BMD), sustainment, and maritime operations.

-- Information Security: The U.S. and Japan established a Bilateral Information Security Task Force (BISTF) in 2007 in the wake of the unauthorized disclosure of Aegis operational data by a Japanese MSDF member. Since that time, Japan has made progress towards strengthening information security procedures within its ministries, but much work needs to be done on cyber security and establishing a legal framework to allow for effective background investigations and security clearances. The State Department co-chairs the BISTF with DOD and ODNI at the DAS-level.

-- TIP: Your visit will coincide with the release of the annual Trafficking in Persons Report Tier Rankings, a potential irritant to our bilateral relationship. G-TIP has once again slated Japan to be ranked as a Tier Two country, despite the fact that Tokyo has met or exceeded requirements earlier set by Washington. Senior Japanese officials have repeatedly warned that they will cease cooperating with us on the issue, having determined that our ranking system is not objective, not applied equally across countries, and poorly substantiated. Greater confrontation over this issue will not help us achieve our goals regarding trafficking in Japan. Quite the opposite, by recognizing Japan's substantial achievements, we could elevate our relationship to a true partnership in working to resolve this problem worldwide.

-- Child Porn: On a related topic, a bill to criminalize the possession of child pornography has been slow to move through the Diet, due to concerns over privacy issues. An expression of interest on your part in the progress of this legislation could refocus efforts by supporters of the bill to gain passage before the end of this session.

-- Hague Convention on Civil Aspects of International Child Abductions: We have more child abduction cases with Japan than any other non-Hague country and have yet to resolve a single case. We have been working closely with Canada, France, the UK, and others to encourage Japan to become the 82nd signatory to this convention. Currently we are aware of 73 cases involving over 100 children who were abducted by a parent in the United States and brought to Japan. CA DAS Michelle Bond met with Foreign Affairs and Justice Ministry officials to urge Japan to accede. There is growing

congressional and press interest in this issue.

-- IAEA Election: International Atomic Energy Agency (IAEA) Director General: Japan continues to strongly advocate on behalf of its candidate for IAEA Director General, Ambassador Yukio Amano. The GOJ is coordinating closely with the USG in Washington, Vienna, and Tokyo on outreach to key countries, and has expressed appreciation for continued U.S. support of Amano.

FOREIGN RELATIONS

-- Afghanistan/Pakistan: In April, Japan hosted the ministerial-level Pakistan Donors Conference, which garnered over five billion dollars in pledges. Japan matched our contribution, pledging one billion dollars in new funds over two years. In Afghanistan, Japan is working more closely with the PRTs, assigning a full-time liaison officer to NATO's office in Kabul and dispatching the first of what will eventually be four officials from the Ministry of Foreign Affairs (MOFA) to the Lithuanian PRT in Chaghcharan. With \$1.4 billion dollars pledged since 2002, Japan is the third

TOKYO 00001163 005 OF 006

highest bilateral contributor (behind the United States and the United Kingdom) to Afghanistan. An additional \$300 million dollars in the supplemental budget will support the 2009 Afghan elections and other security programs, including payment of salaries for the entire Afghan police force for six months and contributions to the NATO helicopter trust fund.

-- Iraq: Japan is the second largest contributor to Iraqi reconstruction and is moving to establish an office in Erbil. In January the two countries signed a "Comprehensive Partnership" agreement, and Japan can be counted on to continue to support Iraqi reconstruction.

-- Iran: Japan maintains a "normal" relationship with Iran and sees itself as a possible intermediary between Iran and the United States. Shortly after Iranian Foreign Minister Mottaki visited Tokyo for the Pakistan Donors Conference, Foreign Minister Hirofumi Nakasone traveled to Tehran, despite our urging to the contrary after President Ahmadinejad's racist speech in Geneva. In meetings with Mottaki and President Ahmadinejad, Nakasone pressed hard for a favorable response to President Obama's overtures, and also sought the release of Roxana Saberi. He urged Iran to play a more "responsible" role, but did not raise Ahmadinejad's Geneva remarks or Iran's support for Hizbollah and Hamas. Japan and Iran have announced their intention to engage in several joint projects pertaining to Afghanistan, including border cooperation and the training of Afghan refugees in Iran who are preparing to return home.

-- North Korea: Discussions on the situation in North Korea and the status of the Six-Party Talks will be a constant theme during your visit and will draw widespread press attention. Japan remains exceedingly uneasy about the DPRK, particularly in light of the most recent test launches. Special Envoy Bosworth's two visits have helped reassure Japan that our policies are still in sync, but you can reinforce that message. You will be expected to express concern for the fate of Japanese citizens abducted by the DPRK, and your words will be parsed carefully for any clues to potential changes in our approach. The government remains firm in its refusal to provide energy assistance to Pyongyang as long as the DPRK's August 2008 pledge to open a reinvestigation into the fate of Japan's abductees remains unfulfilled.

-- China: Japan's relations with its other immediate neighbors are generally stable, although problems persist just beneath the surface. Prime Minister Aso has been

successful in defusing, for the time being at least, the sharp conflicts over history that damaged relations with China during the Koizumi years and has successfully led the first Trilateral Dialogue with Japan-China-Korea and won agreement from Beijing to re-start Japan's version of the SED after a long hiatus. While Japanese acknowledge that good U.S.-China relations are in Japan's interest, they also fear that the United States will discount Japan's interests in pursuit of more robust relations with China. Japan has been sensitive to recent Chinese actions around the disputed Senkakus and has sought explicit U.S. reassurance on our commitment to aid Japan in the case of an attack on the islands.

-- South Korea: Territorial disputes over the Liancourt Rocks (Takeshima/Tokdo) remain an irritant to relations with South Korea, but both sides have expressed a desire to build a Japan-ROK relationship that is "different from the relationship up until now." Prime Minister Aso and ROK President Lee Myung-bak have struck up a particularly good personal relationship, and the pace of "shuttle diplomacy" has picked up markedly since Aso took office.

TOKYO 00001163 006 OF 006

-- Climate Change: Japan is an enthusiastic supporter of the Major Economies Forum and has been eager to engage Special Envoy Stern and his team on coordination of our efforts in the MEF and the UN. The aim for Japan is to achieve an agreement in Copenhagen that the U.S. can be a part of and one that includes meaningful actions by developing countries, especially China and India. To do this, the GOJ will have to bring along the Japanese business association, Keidanren, which, influenced by Japan's heavy industry, has opposed serious efforts to reduce Japan's emissions even though many Japanese companies stand to benefit from the move to a green economy. Prime Minister Aso has said he will announce a mid-term target for greenhouse gas reduction by this June, which will be a test of his ability to navigate between business interests and a popular desire in Japan to take action on climate change.

ZUMWALT